Haelan v. Commissioner, 1948 Tax Ct. Memo LEXIS 266

The sale of a partnership interest is the sale of a capital asset, resulting in capital gain or loss, regardless of whether the state has adopted the Uniform Partnership Act.

Summary

Haelan sold his interest in a Texas partnership and claimed a capital gain. The Commissioner argued that under Texas law, the sale dissolved the partnership, resulting in the sale of an interest in the firm's assets, taxable as ordinary income. The Tax Court held that the sale of a partnership interest is the sale of a capital asset, regardless of whether the state has adopted the Uniform Partnership Act. The court emphasized the similarity between Texas partnership law and the Uniform Partnership Act regarding the nature of a partner's interest.

Facts

The petitioner, Haelan, sold his interest in the Hyman Supply Co., a partnership. The partners resided and the partnership engaged in business in Texas, which had not adopted the Uniform Partnership Act. Haelan reported the gain from the sale as a capital gain.

Procedural History

The Commissioner determined that the gain should be taxed as ordinary income. Haelan petitioned the Tax Court for review of the Commissioner's determination.

Issue(s)

Whether the sale of a partnership interest in a state that has not adopted the Uniform Partnership Act should be treated as the sale of a capital asset, resulting in a capital gain or loss, or as the sale of an interest in the underlying assets of the partnership, resulting in ordinary income.

Holding

Yes, because the sale of a partnership interest represents the sale of an intangible capital asset, namely the right to share in the partnership's value after settlement of its affairs, and not a direct sale of the partnership's underlying assets.

Court's Reasoning

The court relied on prior cases such as *Dudley T. Humphrey, Commissioner v. Shapiro, Allan S. Lehman,* and *Thornley v. Commissioner*, which held that the sale of a partnership interest is the sale of a capital asset. The Commissioner attempted to distinguish these cases on the ground that they were decided under the laws of

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states that had adopted the Uniform Partnership Act, whereas Texas had not. The court rejected this argument, finding no material difference between Texas partnership law and the Uniform Partnership Act on this issue. The court noted that Texas courts have held that a partner's interest is their share in the surplus after debts are paid and accounts are settled, and that a partner has no specific interest in any particular asset of the firm, citing *Sherk v. First National Bank*, *Egan v. American State Bank*, and *Oliphant v. Markham*. The court stated, "Substantially the same law prevails in states which have adopted the Uniform Partnership Act." The court distinguished *Williams v. McGowan*, noting that it involved the sale of an entire business, not merely a partnership interest.

Practical Implications

This case reinforces the principle that the sale of a partnership interest is generally treated as the sale of a capital asset for tax purposes. The location of the partnership (i.e., whether the state has adopted the Uniform Partnership Act) is not determinative, as long as the state's partnership law is substantially similar to the principles underlying the Uniform Partnership Act. Attorneys advising clients on the sale of partnership interests should analyze the relevant state partnership law to determine whether it aligns with the general principles regarding the nature of a partner's interest as a share in the partnership's surplus. This case is a reminder to focus on the substance of the transaction (sale of an intangible partnership interest) rather than the theoretical dissolution of the partnership under state law. Later cases would continue to refine the nuances of partnership interest sales, but Haelan provides a clear statement of the general rule.

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